



## **Request for City Council Committee Action from the Department of Finance and Property Services and Other City Departments**

**Date:** May 13, 2013

**To:** Regulatory, Energy and Environment Committee

**Referral to:** Ways and Means Budget Committee

**Subject:** City Cost of Services Analysis and Fee Study Update

**Recommendation:**

Review and discuss service and fee costing methodology and preliminary findings for City Fee Study. Receive and file methodology document and preliminary findings.

**Previous Directives:**

Staff Direction 2013 Operating Budget Appropriation Resolution 2012R-654

**Department Information**

Prepared by:	Sandy Christensen, Deputy CFO
Approved by:	Kevin Carpenter Chief Finance Officer
Presenters in Committee:	Sandy Christensen

**Reviews**

- Permanent Review Committee (PRC): Approval NA Date \_\_\_\_\_
- Civil Rights Approval Approval NA Date \_\_\_\_\_
- Policy Review Group (PRG): Approval NA Date \_\_\_\_\_

**Financial Impact**

- Other financial impact: The findings of the Cost of Services Analysis and Methodology and Fees Study do not generate a fiscal impact for 2013, but rather may be used in part as the basis for setting fees and associated revenue budgets for 2014 and subsequent years.

**Community Impact:**

- City Goals – ***A CITY THAT WORKS***

## **Supporting Information:**

### **Background**

During the 2013 budget process, increased scrutiny was placed on fees charged for various City services both at the individual fee level as well as the aggregate amount of revenue received to offset the costs of providing those services. Additional focus was directed at the impact of volume of work/activities and the annual variance in the amount of aggregate revenue generated by these activities. Different practices were used throughout the budgets of various departments to estimate fees-related revenue for the up-coming budget year. The ability to affirm that the City was recouping an appropriate level of activity-based costs was identified as an important initiative to consider in budget creation. Council provided staff direction as a footnote to Resolution 2012R-65 as follows:

*o) City Departments are directed to work with the Finance Department to review and analyze the City's existing fee structure to determine fiscal relationship between cost of providing activities and ability to recoup costs. The study shall be complete by April 1, 2013, and presented to the Ways & Means/Budget Committee and the Regulatory, Energy & Environment Committee during their regularly scheduled meetings in April 2013.*

*p) City Departments are further directed to work with the Finance Department and City Attorney to incorporate the results of the fees study into the development of a methodology and process to support any proposed ongoing adjustments to existing fees. The proposed methodology and process shall be presented to both the Ways & Means/Budget Committee and Regulatory, Energy & Environment Committee by June 30, 2013.*

### **Methodology Summary**

Fee collection is a cost recovery activity. The City may not charge more than the actual cost of providing that service; however, the City is not precluded from considering indirect expenses in its calculation of "cost".

The study and compilation of methodology documents build upon work previously done within the City, as well as studies completed by Public Financial Management, Inc (PFM) in 2004. Phase I of the 2004 Study was used as the basis for completion of the first annual Municipal Construction and Development Fee Revenue and Expenses Annual Report for the Department of Labor and Industry of the State of Minnesota and later annual submittals. A subsequent Phase II study expanded the scope of departments interviewed and analyzed, but a final product did not come to fruition. Additional resources used in the creation of the Methodology document were made available from the Government Finance Officers Association (GFOA), the League of Minnesota Cities, Managing Public Money Journal, and the California State Department of Public Health Licensing and Certification Program to provide benchmarks and guidelines for determining indirect costs.

For purposes of this study, indirect costs were defined as all allocable costs associated to the provision of a specified service, regardless of the City's will or ability to charge a fee to recoup its costs. This includes paid time off, administrative and "non-service" time which would include training and meetings. Additionally, the cost of fringe benefits and supervision, as well as department administrative costs and supplies are considered appropriate indirect costs. Expanding the recognition of support costs necessitates the inclusion of City-wide administrative costs associated with internal services, space utilization, building operations and depreciation, as well as future liabilities. Where possible, service costs were calculated using the employees direct wage cost associated with providing a service with additional layers of indirect costs added for each level of indirect cost described above.

### **Findings**

Analysis indicates that there have been differences in how various departments and divisions have approached costing methodology and the process for annual adjustments. For example, building permit fees at the individual level have been linked to the local Construction Code Index (CCI) with a minimum annual increase of 3% to be included in an annual update to the Director's Fees Schedule (Title 5, Section 91.70). For Business and Other License Fees, the Director of Regulatory Services is responsible for insuring that the license fees referenced in Titles 3 (Air Pollution and Environmental Protection), 4 (Animals and Fowl), 10 (Food Code), 11 (Health and Sanitation), 12 (Housing), 13 (Licenses and Business Regulations) and 14 (Liquor and Beer) of this Code are updated at least annually through council approval as specified in section 261.60, which requires a public hearing be held each year prior to September 1. In both preceding service areas, the annual updates to fees schedules are accomplished through Council resolution.

Contrary to the process used for adjusting Building Permits and Business Licenses, there are a number of fee directives and schedules that are not able to be adjusted by simple Council resolution. For example (including, but not limited to), the following fees' schedules exist in City ordinance: Police and Fire Fees – Title 9, Planning Fees – Title 16 Section 414, Public Works – Title 17, Sewer and Water Fees – Title 19 Section 505, Zoning Administration Fees – Title 20 Section 525, Land Subdivision Fees – Title 22 Section 598, Heritage Preservation Fees – Title 23 Section 599. Because these fees' schedules are incorporated into ordinance, as opposed to reference in separate resolution-approved fee schedule, annual updates are more cumbersome to accomplish.

Preliminary calculations indicate that current fees meet the mandate that they not exceed the actual cost of the service. In fact, some do not recover their cost and should be evaluated for adjustment. Further analysis indicates that for many services, there are multiple tasks to be considered, some of which cross departments and functions, including the provision of background checks and well as compliance and enforcement activities. To date, over 1,000 activities associated with fee-generating services have been identified. As a result, full data collection for some services is not yet complete as staff compiles the additional cost information.

### **Next Steps**

Staff will continue to compile cost information and compare to existing fees, using guidance in the attached methodology document. Cost information will be brought forward for Council consideration in setting fees – there may be occasions when the full cost is not able to be recouped either due to statutory limitation, market conditions or political will. Additionally, departmental staff will continue to work with the City Attorney's Office in amending ordinances to remove actual fee amounts in lieu of reference to fees schedules and annual update processes. Reviews of this data should occur at regular intervals, such as every five years, to account for changes in business practices, technology and activity levels.